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Statement of A. Ellen Terpstra, Administrator
Foreign Agricultural Service
U.S. Department of Agriculture
Before the House Subcommittee on Agriculture,
Rural Development, Food and Drug Administration, and Related Agencies
Washington, D.C.

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to review the work of the Foreign Agricultural Service (FAS) and to present the President's budget request for FAS programs for fiscal year (FY) 2005. Our budget request reflects several initiatives needed to ensure FAS' continued ability to accomplish its mission and provide service to U.S. agriculture.

Last year, FAS had much to celebrate—its 50th anniversary as an agency, implementation of the new McGovern-Dole International Food for Education and Child Nutrition Program, the Secretary's successful Ministerial Conference and Expo on Agricultural Science and Technology, a recovery in U.S. agricultural exports, and the conclusion of negotiations on a historic free trade agreement (FTA) with Central American countries. This year, FAS also has much to highlight—a near record export forecast, the 50th anniversary of Public Law 480, the conclusion of negotiations for free trade agreements with Australia and Morocco, and the anticipated conclusion of negotiations for a Free Trade Area of the Americas (FTAA) and FTAs with the Dominican Republic and five Southern African countries.

These events demonstrate FAS' commitment to fulfilling its mission of expanding and maintaining export opportunities for U.S. agricultural, fish, and forest products and helping to alleviate world hunger and food insecurity. The agency's mission is critical to U.S. farmers as our agriculture sector is twice as dependent on exports as the rest of the U.S. economy.

Last fiscal year, U.S. agricultural exports reached $56.2 billion, an increase of nearly $3 billion over 2002. USDA predicts near-record U.S. agricultural exports of $59 billion in FY 2004, more than 5 percent above exports in 2003 and nearly equal to the record $59.8 billion set in FY 1996. The Western Hemisphere remains the largest regional market for U.S. agricultural products, with exports projected at $22.6 billion. Canada is now the largest U.S. agricultural export market, with sales to Canada forecast at $9.9 billion. Exports of corn, wheat, soybeans, and horticultural products are expected to increase over FY 2003.

While the anticipated recovery in exports is good news for U.S. farmers and exporters, the U.S. beef and cattle industry lost export markets in late 2003 since a single case of Bovine Spongiform Encephalopathy (BSE) or mad cow disease was discovered in Washington state. More than 70 U.S. trade partners closed their markets to U.S. beef, cattle, sheep, and goats, and other products. Since late December, FAS has worked tirelessly to inform our trade partners about the steps we are taking to investigate the situation and the additional safeguards we have implemented. We have been successful in keeping a portion of the Canadian and Philippine markets open to U.S. beef and had productive discussions with Mexican officials, as evidenced by Mexico reopening its market to U.S. beef products earlier this month. We are working with our Canadian and Mexican counterparts to enhance and coordinate a consistent North American response to the animal health and trade issues that BSE raises. We have dispatched high-level officials and technical teams from USDA and the Food and Drug Administration to Japan, South Korea, Hong Kong, and the Philippines and have hosted technical teams from Japan and Mexico here. We will continue such efforts to exchange information in the hope of eventually resuming trade.

Here in Washington and at U.S. embassies abroad FAS staff continues to inform foreign governments of actions taken and to reassure them of the safety of our beef. Our efforts to restore our foreign markets continue to be our top priority, and we urge our trading partners to resume trade based on sound scientific principles.

An additional wrinkle was added to the U.S. broiler export outlook when an outbreak of Low Pathogenic Avian Influenza (LPAI) was reported in several U.S. states in early February, followed by the confirmation of a Highly Pathogenic Avian Influenza (HPAI) case in Texas on February 23. U.S. trading partners immediately imposed bans on imports of U.S. chicken and turkey meat. The HPAI case was the first one in the United States in 20 years and it may keep us out of some of our larger markets for several months because this version of the disease is recognized internationally as highly contagious and import restrictions may be valid as long as they are limited to the state of Texas.

FAS Program Activities

Last year, we continued to use our long-standing export programs vigorously and have implemented new initiatives mandated in the Farm Security and Rural Investment Act of 2002 (2002 Farm Act).

The 2002 Farm Act established the Technical Assistance for Specialty Crops program and authorizes $2 million in Commodity Credit Corporation (CCC) funds for each fiscal year from 2002 to 2007. Last year, we allocated $2 million to 19 entities for projects to help address unique barriers that prohibit or threaten the export of U.S. specialty crops.

The Farm Act also increased funding for the Market Access Program. For FY 2003, we allocated $110 million to 65 trade organizations to promote their products overseas. The Farm

Act also increased funds for the Foreign Market Development Program, and FAS approved marketing plans totaling $38.0 million for 23 trade organizations for FY 2003.

The Emerging Markets Program is authorized at $10 million each year and provides funds for technical assistance activities that will increase market access for U.S. commodities and products in emerging markets. A total of 75 projects were approved for FY 2003. The Quality Samples Program provides funds so U.S. organizations can provide commodity samples to foreign buyers to help educate them about the characteristics and qualities of U.S. agricultural products. FAS allocated more than $1.7 million in FY 2003 to 21 organizations under this program.

The GSM-102 short-term export credit guarantee program facilitated sales of more than $2.5 billion in U.S. agricultural products last year to 12 countries and five regions. At the same time, U.S. exporters continue to discover the benefits of the Supplier Credit Guarantee Program. We issued $670 million in credit guarantees under this program in 2003, a more than 33-percent increase over last year, demonstrating increased awareness of the usefulness of this program.

With the aid of the Dairy Export Incentive Program, U.S. exporters sold more than 86,000 tons of dairy products in FY 2003. The CCC awarded more than $31 million in bonuses to help U.S. dairy exporters meet prevailing world prices and develop foreign markets, primarily in Asia and Latin America.

The 2002 Trade Act established a new program, which is being administered by FAS—Trade Adjustment Assistance (TAA) for Farmers. Under this program, USDA provides technical assistance and cash benefits to eligible U.S. producers of agricultural commodities if increased imports have contributed to a specific price decline over five preceding market years. Last fiscal year, we got the program up and running and began accepting petitions for evaluation of eligibility for the program. Already this fiscal year, we have granted assistance to catfish producers in 18 states; shrimp producers in South Carolina, Texas, and Georgia; wild blueberry producers in Maine; and salmon fishermen in Alaska and Washington. An additional 10 petitions are under review and decisions on their eligibility for TAA should be made by the end of March.

On the trade policy front, we are working to open, expand, and maintain markets for U.S. agriculture. We are actively pursuing what U.S. Trade Representative (USTR) Robert Zoellick has called the competition for liberalization by seeking trade agreements in multilateral, regional, and bilateral contexts.

Although the outcome of the World Trade Organization (WTO) negotiations in Cancun last September was a lost opportunity, the United States has not given up its efforts to achieve an international agreement that will liberalize agricultural trade. The United States and many other countries remain committed to eliminating trade distorting subsidies and tariffs, but we must do so together. The Cancun meetings resulted in a text that establishes a good basis for continuing negotiations. We will continue to work with all players, including countries that raised objections in Cancun, to seek common ground.

In the meantime, we are pressing ahead with efforts to reach regional and bilateral trade agreements.

In September, the President signed legislation to implement FTAs with Chile and Singapore. In December, we concluded negotiations on a historic and comprehensive Central American Free Trade Agreement (CAFTA) with El Salvador, Honduras, Guatemala, and Nicaragua. This agreement will strip away barriers to trade, eliminate tariffs, open markets, and promote investment, economic growth, and opportunity. Costa Rica joined CAFTA in January.

While pursuing new negotiations, we have begun to see the benefits of earlier agreements. For example, on January 1, 2004, the United States, Canada, and Mexico celebrated the tenth anniversary of the implementation of the North American Free Trade Agreement (NAFTA). This groundbreaking agreement made North America the world's largest free trade area. The success of the agreement for agriculture has been quite remarkable. Since 1994, Canada and Mexico have been our two top agricultural growth markets in the world—by a wide margin. Exports to Canada rose by about $3.1 billion over those years, while sales to Mexico rose about $2.7 billion. U.S. exports to the rest of the world rose by only $1.1 billion. In 2002, U.S. consumer-oriented products made up the lion's share of all U.S. agricultural exports to Canada (70 percent) and Mexico (39 percent). Demand in both Canada and Mexico continues to look promising. Real economic growth in Canada is projected at roughly 3 to 3.5 percent a year over the next 10 years, while the Mexican economy is expected to grow by 4 to 4.5 percent a year. As incomes grow, food demand will likely follow, making NAFTA beneficial to U.S. agricultural exporters for years to come.

As with all trade agreements, however, progress is not always straightforward. FAS monitors and enforces trade agreements to ensure that the benefits gained through long, hard negotiations are realized. Last year, our monitoring of the Uruguay Round Agreement on Agriculture and the Sanitary and Phytosanitary Agreement preserved an estimated $1.6 billion in U.S. trade. We continue to work to ensure that China adheres to its WTO accession commitments to change its tariff-rate quota system. In 2003, China purchased U.S. cotton and soybean oil exports of $330 million and $48 million, respectively. We also worked to help win a WTO case against Japan's unscientific import restrictions on U.S. apples, thus saving a potential $30-million market; and are working to preserve almost $400 million in U.S. exports of animal by-products to the European Union (EU).

In addition, we helped resolve Russia's technical issues related to poultry plant inspections, thus saving a market worth more than $300 million and restored access for U.S. dry beans to Mexico, resulting in the resumption of trade valued at $60 million last year.

July 10, 2004, marks the 50th anniversary of Public Law (P.L.) 480, the Agricultural Trade Development and Assistance Act of 1954. This landmark program is the U.S. Government's primary vehicle to meet humanitarian food needs; it also helps to spur economic and agricultural growth in developing countries, leading to expanded trade.

Last year, we used this program to ship commodities from the United States to needy people around the world. Under numerous programs, FAS programmed nearly 575,000 metric tons of food assistance in FY 2003 under P.L. 480, Title I credit agreements and Title I - funded Food for Progress donations. These products, valued at $122 million, went to 15 countries. The U.S. Agency for International Development (USAID), which manages the Title II program of P.L. 480, provided about 3.7 million metric tons (grain equivalent basis) of food to needy people.

Also last year, FAS launched the McGovern-Dole International Food for Education and Child Nutrition Program allowing us to build on the success of the Global Food for Education (GFE) pilot program, which began in FY 2001. It is designed to both encourage education and deliver food to improve nutrition for preschoolers, school children, mothers, and infants in impoverished regions. The 2002 Farm Act authorized the program through FY 2007, providing $100 million in CCC funding for FY 2003. Under FY 2003 programming, Food for Education donations were announced for 21 countries, totaling 131,000 metric tons valued at about $42 million.

In addition to these food assistance programs, last year FAS employees were deployed to Afghanistan and Iraq to help rebuild those countries' agricultural sectors. The reconstruction challenges in these two countries are enormous, the security and logistical challenges tremendous, and the obstacles to progress great. However, we are committed, along with USAID, the Department of State (DOS), and the Department of Defense, to do all that we can in the reconstruction effort.

In Afghanistan, we provided technical guidance to help establish an Afghan Conservation Corps. This corps will provide jobs to thousands of unemployed Afghans, putting them to work to grow and plant trees, collect and conserve water, and stop soil erosion. FAS led the Department's assistance efforts for the corps, sending three technical teams on short-term assignments last year. In addition, FAS placed three USDA staff employees in provincial reconstruction teams, with the goal of placing a total of eight, to work in rural agricultural areas rehabilitating Afghanistan's agricultural sector.

In Iraq, USDA is playing a key role in the United States' overall efforts to create a democratic, market driven economy. With DOS and USAID, USDA is assessing food needs and providing expertise on restoring water, agriculture, forestry, and rangelands. Rebuilding Iraq's agricultural infrastructure continues to be a major priority. To that end, USDA continues to work on the revitalization of Iraq's agriculture ministry and is working with other U.S. Government agencies on reconstruction and development priorities, looking forward to commercial trade with Iraq. In recognition of Iraq's many needs, FAS sent a U.S. agricultural officer there in February 2004 to work as a senior advisor for food trade issues in the Ministry of

Trade. This comes at a critical time, when Iraq begins to take more responsibility for its important agricultural and trade programs.

Last year, the United States committed a total of $478 million for food assistance to Iraq, shipping a total of 255,320 tons of U.S. commodities including wheat, flour, rice, soybean oil, nonfat dry milk, and pulses (Great Northern beans, chickpeas, and black-eyed peas) under P.L. 480, Title II and Section 416(b) of the Agricultural Act of 1949.

Another example of our continuing efforts to help countries help themselves was Secretary Veneman's historic Ministerial Conference and Expo on Agricultural Science and Technology last June. The conference focused on how science and technology and a supportive policy environment can drive agricultural productivity and economic growth to alleviate world hunger and poverty.

About 1,000 participants attended including 119 ministers of agriculture, science and technology, health, environment, and commerce. It was one of the largest, most diverse gatherings of decision-makers from around the world to address global hunger. One-hundred seventeen countries were represented. Other attendees came from the private sector, academia, research institutes, foundations, and non-governmental and international organizations.

The Ministerial provided an extraordinary opportunity for dialogue, knowledge sharing, and the creation of partnerships. It sparked tremendous enthusiasm among ministers and other developing-country representatives for science and technology to deliver solutions.

Given the tremendous energy the event generated, many ministers from developing countries have agreed to partner with USDA to keep the momentum going in finding technology- and policy-based solutions to global food insecurity. For example, ministers from Africa and Latin America offered to host follow-up conferences for their regions. A Central

American regional conference will be held in Costa Rica in May in partnership with the Inter-American Institute for Cooperation on Agriculture (IICA). A regional conference for West Africa will take place this summer in Ouagadougou, Burkina Faso. Other conferences and follow-up activities are planned throughout the coming years.

As we work to organize and conduct follow-up activities, we are building invaluable relationships with developing countries that will help us work together in the future to resolve trade disputes and prepare developing countries for global trade. Our longstanding training program, the Cochran Fellowship Program was used to introduce 853 Cochran Fellows from 82 countries to U.S. products and policies in 2003. These Fellows met with U.S. agribusiness; attended trade shows, policy, and food safety seminars; and received technical training related to market development. The Cochran Fellowship Program provides USDA with a unique opportunity to educate foreign government and private sector representatives not only about U.S. products, but also about U.S. regulations and policies on critical issues such as food safety and biotechnology.

During Secretary Veneman's visit to Afghanistan in November, she announced the first Cochran Fellowship Program with Afghanistan to provide short-term, U.S.-based training for eight Afghan women to study agricultural finance. They will learn about business plans, financial management, farmers' cooperatives, and micro-credit programs to promote food security and income-generating small businesses.

We also collaborated with a diverse group of U.S. institutions in research partnerships with more than 50 countries to promote food security and trade. These research and exchange activities made practical use of biotechnology and other scientific techniques to help solve critical problems affecting food, agriculture, fisheries, forestry, and the environment. Activities also were conducted to evaluate the food, nutritional, and water needs of vulnerable populations in rural and urban areas to help expand the livelihoods of small and limited-resource farmers, ranchers, and communities.

In the end, the technical assistance that we provide will help build the institutions needed for developing countries to attract investment and grow their economies. When our efforts are successful, our food and agricultural producers will benefit by access to more and better markets.

Challenges Ahead

Faced with continued growth in our agricultural productivity, intense competition, and continued aggressive spending on market promotion by our competitors, we must redouble our efforts to improve the outlook for U.S. agricultural exports. I would like to discuss our top priorities for the year.

Continuing Trade Liberalization for Agriculture

At the top of our list is moving forward in multilateral, regional, and bilateral trade negotiations on agriculture. Although getting the WTO negotiations restarted and on a positive path will not be easy, we must resume the long journey toward worldwide multilateral trade liberalization.

The Doha Round will not likely meet its deadline of having an agreement completed by January 2005. However, all countries have much to gain from successful reform of the international trading system, and we must continue our efforts to resolve the issues that stalled the talks in Cancun.

In January, Ambassador Zoellick sent a letter to his counterparts in the WTO suggesting a "common sense" approach to advance the negotiations in 2004. Ambassador Zoellick recommended that the negotiations focus on core market access topics of agriculture, goods, and services.

In the area of agriculture, the letter suggests that WTO members agree to eliminate export subsidies by a date certain, agree to substantially decrease and harmonize levels of trade-distorting domestic support, and provide a substantial increase in market access opportunities. The letter notes that the United States stands by its 2002 proposal to eliminate all trade distorting subsidies and barriers to market access.

To hammer home the points he made in his letter, Ambassador Zoellick traveled extensively at the end of February, meeting with more than 30 countries in Asia, Africa, and Europe. He also attended the Cairns Group meeting, which gave him a good opportunity to talk with many Latin American countries. In addition, Secretary Veneman had a very fruitful meeting with EU Commissioner Franz Fischler during which she pressed for the resumption of the Doha Agenda talks. The response to Ambassador Zoellick's proposal has been very positive, and most countries appear to be genuinely interested in moving the negotiations forward. Serious, substantive discussions will resume in Geneva next week. We are optimistic that we will have a framework in place by July and possibly a Ministerial conference by the end of the year.

In addition, we will continue to press ahead with our efforts to reach regional and bilateral trade agreements. During the last year, we implemented FTAs with Chile and Singapore and concluded negotiations with Central America. Earlier this year, we concluded free trade talks with Australia and Morocco. We also hope to bring the Dominican Republic into the CAFTA agreement, and we will continue to work towards establishing an FTA with the

Southern African Customs Union—which includes the countries of Botswana, Lesotho, Namibia, South Africa, and Swaziland. We have recently launched negotiations with Bahrain and will soon begin discussions with Panama, Colombia, and Peru.

Another major trade initiative is the FTAA. Launched in 1998, these negotiations could establish a free trade zone, covering 800 million people in 34 countries that stretch from the Arctic Circle to Tierra del Fuego. These negotiations have proven to be quite challenging because of the large number of participants, each with its own interests and external relationships. An important breakthrough was made at the Miami Ministerial meeting in November at which trade ministers established a new framework that will allow countries with greater ambition for trade liberalization to pursue those goals with like-minded partners within the FTAA, while ensuring that all participants will be covered by a common set of rights and obligations. Concluding these negotiations on schedule will be a challenge, but it can be done as long as we all remain committed to regional integration as a tool to stimulate economic growth in the hemisphere.

We will continue to work with the countries that would like to join the WTO, such as Russia and Saudi Arabia. Although increasing the number of members in the WTO is a high priority, we will continue to insist that these accessions be made on commercially viable terms that provide trade and investment opportunities for U.S. agriculture. And when membership in the WTO is achieved, we must continue to monitor aggressively those countries' compliance with their commitments. We must ensure that acceding countries implement trade policies and regulations that are fully consistent with WTO rules and obligations.

The effort to keep markets open in the face of unscientific or artificial trade barriers is inherent in the FAS mission. This is perhaps our most important task, yet it is the least visible.

It is a measure of our success that so many issues are resolved so quickly, with so little public awareness. Virtually every day, our overseas and Washington staff work as a team on a variety of concerns -- first to prevent crises from developing and then to resolve thorny issues should they arise. They coordinate efforts with a number of USDA agencies, as well as with private sector companies and associations. FAS' overseas officers work continuously to prevent trade problems from occurring or to resolve them as soon as they crop up.

Every year, these activities preserve millions of dollars in trade that potentially could have been lost by countries imposing new barriers. Some problems may be resolved quickly with a phone call or a meeting; others are more complex, and involve multiple U.S. agencies. Our priority this year is reopening our major export markets for U.S. beef and poultry exports. As a result of the single BSE case in Washington state, most U.S. export markets have banned our cattle, beef, and beef product exports, including rendered products, pet foods, and cattle genetics. At the same time, most U.S. export markets have banned or partially banned U.S. poultry and poultry exports because of outbreaks of LPAI.

Another priority is how we deal with the issues surrounding products produced through biotechnology. The increasing number of countries around the world that are issuing regulations relating to products of biotechnology present a particular challenge, both for our infrastructure and for our food and agricultural exports. We are using every available forum to ensure countries adopt science-based policies in this area.

To focus our efforts, FAS formed a new office last year to work with a myriad of public and private, domestic and international organizations on a broad array of biotech issues. Activities this year include working to ensure that the Cartagena Protocol on Biosafety does not disrupt grain trade; participating in the third annual Asia Pacific Economic Cooperation policy dialogue on biotechnology; working with USTR on the U.S. case against the EU's moratorium on biotech products; and a host of other issues and activities too long to mention.

As you see, we will be working on many fronts to continue to improve export opportunities for the American food and agriculture sector, but we cannot do it alone.

Strengthening Market Development Partnerships and Programs

The challenges we face in multilateral, regional, and bilateral trade negotiations make it imperative that we work closely with our foreign market development cooperators to strengthen our partnership and keep the lines of communication open. This will help us become an even more potent force in improving the competitive position of U.S. agriculture in the global marketplace.

We will continue to use our export assistance programs—Emerging Markets Program, Market Access Program, Quality Samples Program, Technical Assistance for Specialty Crops program, and Foreign Market Development Cooperator Program—to open and maintain export opportunities for U.S. farmers and exporters.

We are working on a Global Broad-Based Initiative (GBI) to better utilize our marketing resources. GBI will allow FAS cooperator groups to address a broad range of issues that may be regional in scope. Under the GBI process, proposals for program funding from cooperator groups in concert with input from our overseas posts will address key priorities, such as market access and unfair competition; biotechnology, sanitary and phytosanitary issues, and food safety; best growth markets; high-value products; capacity building; and food security and trade financing.

Proposals that cut across multiple product or industry lines—as well as multiple markets—will have greater impact than those that focus on one product or one market. Under GBI, FAS and cooperators have a unique opportunity to address common strategic challenges and opportunities.

We will continue to encourage U.S. exporters to develop and refine their marketing strategies, look to new market opportunities, and fully use all the FAS tools at their disposal.

Building Trade Capacity

Hand-in-hand with our negotiating efforts are our activities to help developing countries participate more fully in the trade arena. Our trade-capacity building efforts are aimed at helping countries take part in negotiations, implement agreements, and connect trade liberalization to a program for reform and growth. We will work closely with USTR and USAID in this effort.

If we are to achieve success in the negotiating process, we must engage the developing world in the creation and implementation of appropriate trading rules and guidelines. This will take time, but it will be worth the investment. These countries represent our future growth markets. We must address the concerns of developing countries, a requirement made evident in Cancun. Without their support, there will be no new multilateral agreement.

FAS provides technical expertise to enhance developing countries' abilities to engage in two-way trade. FAS recruits expertise from USDA agencies, universities, and the private sector. We have been particularly active in providing information about science-based animal and plant health and food safety rules and systems. We also are working with countries to help them build information systems that provide accurate agricultural production, trade, and price data. Providing technical advice on cold storage, handling, and transportation systems facilitates two-way trade in high-value, perishable foods. By helping countries understand the advantages of using efficient biotechnology tools, we help lower costs and improve the quality of farm products.

Throughout the year, we will use all our available tools—the Cochran Fellowship Program, the Emerging Markets Program, and our involvement in international organizations such as IICA—to educate and assist countries seeking to reform and improve their economies so they can participate in the world marketplace.

Ensuring World Food Security

During the past two years, the U.S. contribution of global food aid has reached about 60 percent of total world aid, and we remain committed to these efforts that address world food insecurity and help to alleviate hunger, malnutrition, and poverty.

During 2004, we will be working closely with the World Food Program and our private voluntary organization partners to ensure that the new McGovern-Dole International Food for Education and Child Nutrition program builds on the success achieved by the Global Food for Education Initiative. USDA will donate approximately 66,000 metric tons of commodities to provide nutritious school meals to school and pre-school children, as well as nutritional assistance to mothers and infants. In addition, we estimate that the United States will be able to distribute about 3.8 million metric tons of commodities through P.L. 480, Food for Progress, and other programs in FY 2004.

But we know food aid is not the only tool to achieve world food security. Developing countries must strengthen their agricultural policies and institutions and increase their investments in agricultural productivity if they are to find their way out of the seemingly endless cycle of hunger, poverty, and economic stagnation. Agricultural science and technology transfer and extension along with supportive policy and regulatory frameworks are critical.

Budget Request

Mr. Chairman, our FY 2005 budget proposes a funding level of $147.6 million for FAS and 1,005 staff years. This represents an increase of $11.9 million above the FY 2004 level and supports several initiatives needed to ensure the agency's continued ability to conduct its activities and provide services to U.S. agriculture.

The budget proposes an increase of $4.8 million for support of FAS overseas offices. The FAS network of 80 overseas offices covering over 130 countries is vulnerable to the vagaries of macro-economic events that are beyond the agency's control. The significantly weakened U.S. dollar and higher International Cooperative Administrative Support Services (ICASS) payments to DOS have caused overseas operating costs to increase sharply. Specifically, these increases include:

- $2.0 million to replenish the Buying Power Maintenance Account (BPMA). FAS has the authority to carry over up to $2.0 million in exchange rate gains from current year appropriations in a BPMA to offset future exchange rate losses. The account was fully funded at the end of FY 2002, but was depleted by the end of FY 2003 due to the weakness of the dollar. Continued weakness of the dollar implies that future exchange rate gains are unlikely.
- $1.76 million to fund higher payments to DOS. DOS provides overseas administrative support for U.S. foreign affairs agencies through ICASS. FAS has no administrative staff overseas, and thus relies entirely on DOS/ICASS for this support. Based on current cost growth trends, we are estimating that our ICASS assessment will increase by about 10 percent or $1,104,000. Additionally, for security reasons, and as a precondition to

moving into the new embassy in Beijing, all agencies are required to purchase new furniture through DOS. DOS has assessed individual agency charges on a per-capita basis; the FAS assessment is $655,000.

- $581,000 to fund mandatory costs of participating in the Capital Security Cost Sharing Program. Beginning in FY 2005, DOS will implement a program through which all agencies with an overseas presence in U.S. diplomatic facilities will pay a proportionate share for accelerated construction of new, secure, safe, and functional diplomatic facilities. These costs will be allocated annually based on the number of authorized positions. This plan is designed to generate a total of $17.5 billion to fund 150 new facilities over a 14-year period. The FAS assessment starts at $3.6 million in FY 2005; however, $3 million of this amount will be offset though a credit for overseas rental costs currently incurred by FAS. The FAS assessment is estimated to increase annually in roughly $3-million increments until FY 2009, at which time the annual assessed level will total an estimated $15 million. This level is assumed to remain constant for the following 9 years.
- $490,000 for the costs of overseas telecommunications improvements. This increase will allow for the upgrade from 9.6 KBPS to 128 KBPS on the State Department's Diplomatic Telecommunications Service (DTS) communication lines where DTS is the only option.

A crosscutting departmental priority is expanding our eGov capability. Secretary Veneman recently announced that USDA would focus on eGovernment initiatives this year. This multi-faceted initiative will change the way we in FAS communicate with each other, with the rest of government, and most importantly, with the customers we serve here and around the world. In this regard, the budget proposes an increase of $5.3 million to implement an FAS

Global Computing Environment initiative. The 4-year initiative will modernize FAS information technology systems and applications to ensure compliance with eGovernment objectives and standards for Federal agencies. Under the Global Computing Environment initiative, FAS will modernize existing systems, restructure its agricultural production and trade databases, and improve the timeliness and efficiency of its reporting systems. The FAS information technology system is aging and in danger of failing. As examples:

- Of the 35 servers currently providing e-mail and network services for FAS, 25 are 5 or more years old, operating well beyond their normal life cycle.
- Over 2/3's of FAS desktop PC's (about 900) are already 5-years old and are only running at one-third the current industry standard operating speed. (800 mh vs. 2.4 gh)
- More than half of the agency's mission-critical information systems - which are of highest interest to USDA customers - are more than 7 years old.

Our goal is to improve the services provided to U.S. agricultural producers and exporters by electronically sharing information, providing FAS program interfaces in real time, with no delays, and in easy to manipulate formats.

As our information systems are modernized, FAS will move aggressively to integrate its information systems with those in Federal and state agencies involved in similar lines of business, i.e., international commerce and trade, international development, trade-capacity building, food aid, trade negotiations, and participation in international organizations.

This will include integration with other USDA agencies through USDA.gov, which will provide the Department's customers with the ability to customize the information they receive from the Department through a personalized web portal. FAS will also need to integrate with DOS' information management system for communications within U.S. embassies and between embassies and Washington. This will give USDA officials access to internal government communications and policy papers on relevant issues such as agricultural trade, food aid, and biotechnology.

Finally, the budget includes an increase of $1.8 million to cover higher personnel compensation costs associated with the anticipated FY 2005 pay raise and efforts to recognize employee performance. Pay cost increases are non-discretionary and must be funded. Absorption of these costs in FY 2005 would primarily come from reductions in agency personnel levels, which would significantly affect FAS' ability to contribute to USDA's strategic goal of enhancing economic opportunities for agricultural producers.

Export Programs

Mr. Chairman, the FY 2005 budget includes over $6 billion for programs administered by FAS that are designed to promote U.S. agricultural exports, develop long-term markets overseas, and foster economic growth in developing countries.

Export Credit Guarantee Programs

The budget includes a projected overall program level of $4.5 billion for export credit guarantees in FY 2005.

Under these programs, the CCC provides payment guarantees for the commercial financing of U.S. agricultural exports. As in previous years, the budget estimates reflect actual levels of sales expected to be registered under the programs and include:

- $3.4 billion for the GSM-102 short-term guarantees;
- $5.0 million for the GSM-103 intermediate-term guarantees;
- $1.1 billion for Supplier Credit guarantees, and
- $10.0 million for Facility Financing guarantees.

Market Development Programs

Funded by CCC, FAS administers a number of programs that promote the development, maintenance, and expansion of commercial export markets for U.S. agricultural commodities and products. For FY 2005, the CCC estimates include a total of $173.0 million for the market development programs, unchanged from FY 2004 these include:

- $125.0 million for the Market Access Program;
- $34.5 million for the Foreign Market Development Cooperator Program;
- $10.0 million for the Emerging Markets Program;
- $2.5 million for the Quality Samples Program; and
- $2.0 million for the Technical Assistance for Specialty Crops Program.

International Food Assistance

The FY 2005 budget continues the worldwide leadership of the United States in providing international food aid. The FY 2005 request for foreign food assistance totals more than $1.5 billion including $1.3 billion for P.L. 480 to provide approximately 3.2 million metric tons of commodity assistance. For Title I, the budget provides for a program level of $123.0 million, which will support approximately 500,000 metric tons of commodity assistance. For Title II donations, the budget provides for a program level of $1.185 billion, which is expected to support 2.7 million metric tons of commodity donations

- $149 million for CCC-funded Food for Progress. This level is expected to meet the minimum level of 400,000 metric tons established in the 2002 Farm Bill;
- $147 million for Section 416(b) donations. Under this authority, surplus commodities that are acquired by CCC in the normal course of its domestic support operations are available for donation. For FY 2005, current CCC baseline estimates project the

availability of surplus nonfat dry milk that can be made available for programming under section 416(b) authority; and

- $75.0 million for the McGovern-Dole International Food for Education and Child Nutrition Program. This represents an increase of $25 million over the FY 2004 appropriation and will assist an estimated 1.9 million participants.

Export Subsidy Programs

FAS administers two export subsidy programs through which payments are made to exporters of U.S. agricultural commodities to enable them to be price competitive in overseas markets where competitor countries are subsidizing sales. These include:

- $28 million for the Export Enhancement Program (EEP). World supply and demand conditions have limited EEP programming in recent years and, as such, the FY 2005 budget assumes a continuation of EEP at the FY 2004 level. However, the 2002 Farm Bill does include the maximum annual EEP program level of $478.0 million allowable under Uruguay Round commitments that could be utilized should market conditions warrant.
- $53 million for the Dairy Export Incentive Program (DEIP), $31 million above the current FY 2004 estimate of $22 million. This estimate reflects the level of subsidy currently required to facilitate exports sales consistent with projected U.S. and world market conditions and can change during the programming year as market conditions warrant.

Trade Adjustment Assistance for Farmers

Under the Trade Act of 2002, the TAA authorizes USDA to make payments up to $90.0 million annually to eligible producer groups when the current year's price of an eligible agricultural commodity is less than 80 percent of the national average price for the 5 marketing years preceding the most recent marketing year, and the Secretary determines that imports have contributed importantly to the decline in price. As of the beginning of March, petitions from eight producer groups had been certified as eligible for TAA and an additional 10 petitions were under review to determine eligibility. Payments under the program will begin later this year once the benefit application period has closed.

This concludes my statement, Mr. Chairman. I will be glad to answer any questions.